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CHINA

China's data dump shows that time is running out to achieve this year's growth target

Data largely came in weaker than already cautious forecasts, and with a less supportive base effect we will need to see a significant stimulus push to reach this year's growth target



More bad news for the property market will continue to weigh on confidence

The National Bureau of Statistics published the 70-city housing prices for August, which showed home prices declined at an accelerated pace. New home prices fell by -0.73% MoM, versus a -0.65% MoM dip in July. Secondary market prices fell by -0.95% MoM versus a -0.80% MoM move in July. The drop in new home prices was the steepest monthly decline of this cycle, while the decline in secondary market prices was the steepest since May.

Compared to the peak of the cycle, new home prices are now down -8.3% while secondary market prices are down -14.6%.

Breaking down the 70-city sample, for the new home market, 67 out of 70 cities continued to see falling new home prices, Xi'an was stable, and 2 cities (Shanghai and Nanjing) showed a slight price increase.

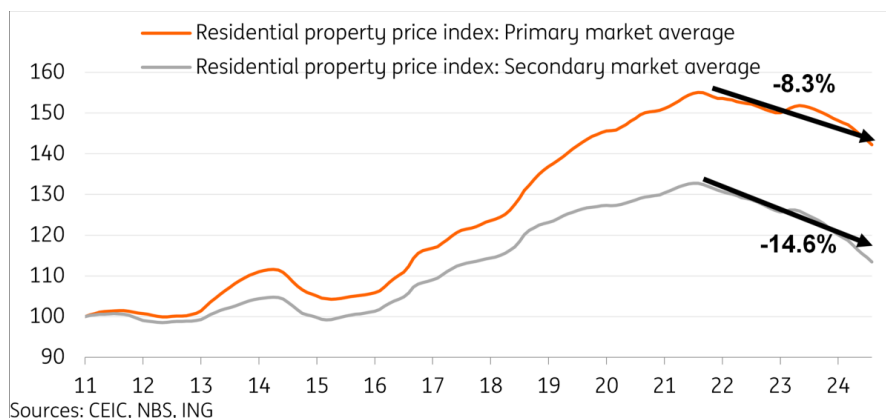
In the secondary market, 69 cities saw price declines, with Jilin the lone city seeing a miniscule price uptick of 0.1%. Disappointingly, the green shoots of stabilisation that we saw in tier 1

cities faded, with Beijing (-1%), Shanghai (-0.6%), Shenzhen (-1.3%), and Guangzhou (-0.7%) all seeing fairly notable declines this month. We place a greater weight on secondary market prices as they more directly impact household confidence and balance sheets.

Investment and construction activity unsurprisingly remained weak. Property investment fell by -10.2% YoY ytd, while new home starts fell by -22.5% YoY ytd, and housing completions fell -23.6% YoY ytd.

This month's data makes it harder to look for silver linings and shows that the bottom has not yet been established. Market reports for a cut to existing mortgages will help alleviate the pain for households, but we still think that stabilising home prices remains vital for restoring confidence.

Property prices continue to slide



Value added of industry slumps as the drag from the "old economy" outweighs new growth categories

The value added of industry growth slowed to 4.5% YoY in August, down from 5.1% YoY. The 4.5% YoY growth rate was tied with several other months for a 13-month low, and came in a little weaker than consensus forecasts.

The persistent weakness of the last few months of PMI data has already foreshadowed this slowdown of manufacturing.

Looking at the output of industrial products, we can see the clear impact of the property market decline play out. Steel production dropped to -6.5% YoY, as China's steel demand has dropped off sharply. This is consistent with all the other data we've seen including a rise in steel export volumes and a decline in imports. Cement also saw a -11.9% YoY decline in August.

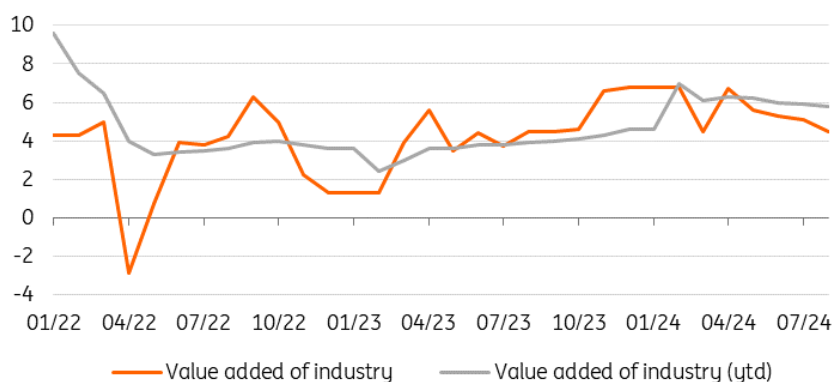
The value added of the auto industry was broadly stable, registering a 4.5% YoY level in

August, a small uptick from July. However, the volume of auto production fell -2.3% YoY. We remain concerned that the auto sector may move from a tailwind to a headwind.

The industries favoured by China's industrial policies moderated but managed quite impressive growth overall. Hi-tech manufacturing maintained solid growth of 8.6% YoY in August. Semiconductors (17.8%), computers, communications, and electric equipment (11.3%), and rail, ships, and aeroplanes (12.0%) manufacturing all continued to see solid growth rates.

After driving growth in the first half of the year, it looks like manufacturing is facing some pressure in the second half of the year. Moving forward, whether or not the bump in August exports was a blip or a trend should be important in how much industrial production can continue to be a growth driver. If external demand can stay resilient for a little longer we could see some resilience but given incoming tariffs and slowing global momentum we are erring on the side of caution.

Value added of industry slumped further in August



Fixed asset investment growth fell to the lowest level of the year

Fixed asset investment (FAI) growth fell to 3.4% YoY ytd through the first eight months of the year, down from 3.6% YoY ytd. This was also a little weaker than consensus and our forecasts for 3.5% YoY ytd.

We continued to see many of the same trends of the last few months play out. Private investment growth, which had been gradually slowing in previous months, finally tipped into negative territory, falling to -0.2% YoY ytd from a flat 0.0% last month. Cautious sentiment continues to limit private investment.

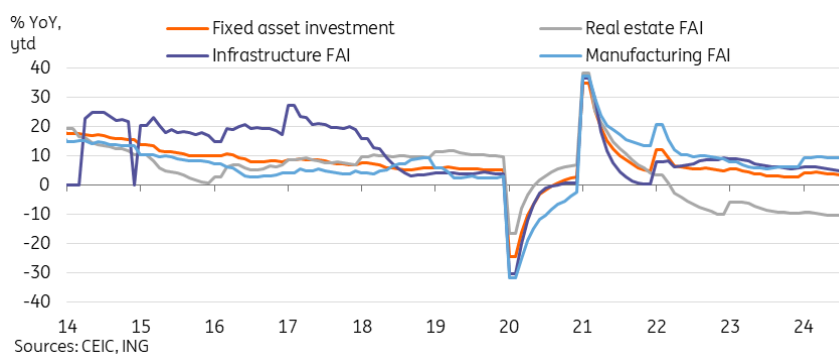
Infrastructure FAI fell to just 4.4% YoY ytd, as targets for investment have not been as obvious as in years past.

Manufacturing FAI continued to outperform, though it also slowed to 9.1% YoY ytd from 9.3% YoY ytd in the previous month. Within this category, electrical machinery and equipment manufacturing (-0.3%) and auto manufacturing (5.4%) were laggards, while many other categories including food manufacturing (26.1%) and railway, marine, aerospace and other transport equipment manufacturing (30.7%) saw rapid growth.

Hi-tech FAI grew by 10.2% YoY ytd and should continue to benefit from the technological self-sufficiency drive.

Looking ahead, barring a large-scale innovative support package for consumption, investment will likely need to be ramped up if China hopes to achieve its 5% growth target.

FAI slowed to the lowest level of the year



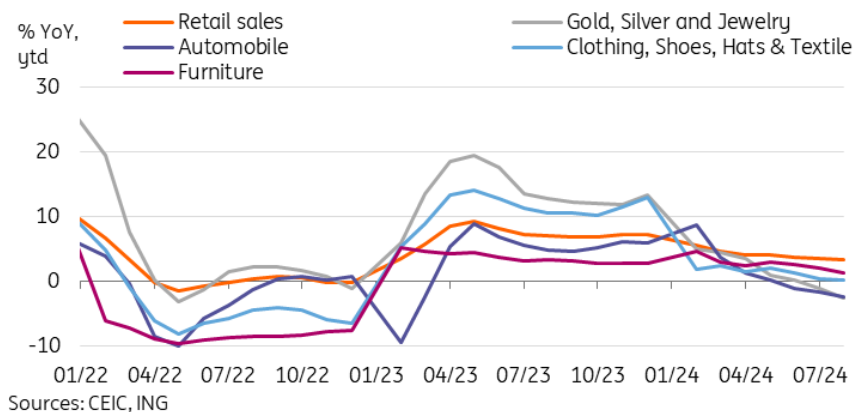
Retail sales showed consumption momentum continuing to falter

Retail sales growth fell to 2.1% YoY in August, down from 2.7% YoY in July, lower than consensus forecasts though barely managing to avoid reaching a new post-pandemic low. Last month's consumer confidence data showed household confidence slumping back toward pandemic lows, and this clearly continues to suppress consumption.

The data continues to paint a clear picture of cautious household spending. Discretionary consumption categories in particular were hard hit in August. Gold and jewellery (-12.0%), autos (-7.3%), and cosmetics (-6.1%) were the biggest drags on retail sales. Categories tied to the housing market including furniture (-3.7%) and building materials (-6.7%) were also in contraction.

Our "eat drink and play" theme continued to be the lone silver lining in consumption, though it also shows signs of slowing down. Catering (3.3%), food (10.1%), tobacco and alcohol (3.1%), and sports and recreation (3.2%) all outperformed headline growth.

Weak confidence has heavily dragged on discretionary consumption



Additional policy support will be needed in order to reach 5% this year

Monthly momentum has slowed in the last few months, and combined with a less supportive base effect, it will be challenging to reach this year's 5% growth target if there is no significant change ahead. While we have seen many supportive policies announced this year, they have been piecemeal and have not yet been sufficient to turn the momentum around.

President Xi reportedly called upon government officials to "strive to achieve the full-year economic and social development goals" at a meeting in Lanzhou this week. We believe that this call could increase the short-term urgency of policy rollout. As we are already toward the tail-end of the third quarter, time is running low for policymakers to introduce measures to buoy the economy amid numerous headwinds.

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